

# **Attachment A: Detailed Reserve Sale Requirements and Instructions**

## **Reserve Sale Notice California Cap-and-Trade Program Sale of Greenhouse Gas Allowances from the Allowance Price Containment Reserve (Reserve Sale) on March 8, 2013 Issued on February 6, 2013**

AB 32 requires California to reduce greenhouse gas (GHG) emissions to 1990 levels by 2020. The Cap-and-Trade Regulation (“Regulation”) is a key element of California’s climate plan. The Regulation is designed to provide covered entities the flexibility to seek out and implement the lowest-cost options to reduce emissions. As part of the Cap-and-Trade Program, California’s first sale of allowances from the Allowance Price Containment Reserve (reserve sale) will be held on March 8, 2013 (March 2013 reserve sale). This attachment provides greater detail about participant eligibility, format of the reserve sale, and Allowance Price Containment Reserve (APCR) allowances offered for sale. This attachment includes the March 2013 reserve sale schedule and detailed requirements and instructions for participating in the reserve sale.

**Only California covered entities and opt-in covered entities are eligible to participate in the March 2013 reserve sale.**

### **I. Reserve Sale Schedule**

Table 1 presents the current schedule for all events associated with the March 2013 reserve Sale (“Reserve Sale Schedule”).

**Table 1: March 8, 2013 Reserve Sale Schedule**

<b>Activities</b>	<b>Date</b>	<b>Time</b>
Release Reserve Sale Notice	Wednesday, February 6, 2013	12:00 PM PT (Noon)
Reserve Sale participant training webinar	Thursday, February 14, 2013	10:00 AM – 12:00 PM PT (Noon)

**Table 1: March 8, 2013 Reserve Sale Schedule cont.**

Reserve Sale application window closes in the Auction Platform <sup>1</sup>	Thursday, February 21, 2013	11:59 PM PT
All bid guarantees due to Financial Services Administrator	Wednesday, February 27, 2013	No later than 2:00 PM PT
ARB approves Reserve Sale participants and participants notified	Wednesday, March 6, 2013	No later than 5:00 PM PT
Reserve Sale held	Friday, March 8, 2013	Bidding window open from 10:00 AM – 1:00 PM PT
Public notice of Reserve Sale results released	Wednesday, March 13, 2013	12:00 PM PT (Noon)
Notification of financial settlement invoice sent to Reserve Sale participants	Wednesday, March 13, 2013	12:00 PM PT (Noon)
Financial settlement in cash due to Financial Services Administrator	Wednesday, March 20, 2013	No later than 2:00 PM PT
Financial settlement complete	Monday, March 25, 2013	
Transfer of allowances into CITSS Accounts	Wednesday, March 27, 2013	12:00 PM PT (Noon)

Pursuant to the Regulation, the first reserve sale is scheduled on March 8, 2013. Subsequent reserve sales will be conducted on the first business day six weeks after each quarterly GHG allowance auction, starting with the auction scheduled in May 2013.

## **II. Administrative Requirements to Participate in the Reserve Sale**

<sup>1</sup> For simplicity, the platform utilized to conduct auctions and reserve sales is referred to as the Auction Platform.

#### **A. Actions Necessary to Support Reserve Sale Participation**

To be able to participate in the March 2013 reserve sale, each entity must take affirmative steps, even if the entity participated or completed the application process for a prior auction.

Step 1: Have an approved CITSS account

Step 2: Select the "Auction Participation" button in the CITSS

Step 3: Complete the reserve sale application or confirm an intent to bid, not later than 11:59 PM PT, February 21, 2013.

The following is a summary of steps which must be completed to participate in the March 2013 reserve sale. Each step is described in more detail within this document. If an organization does not complete the required steps below by the applicable deadlines, they will not be able to participate in the March 2013 reserve sale. **Please be aware that reserve sales have much shorter application periods than auctions and therefore there is limited time for covered and opt-in entities that are interested in participating to complete all necessary actions.** The application period for the March 2013 reserve sale opens when this Notice is posted. Any entity wishing to participate in the March 2013 reserve sale must complete Steps 1 through 4 listed below no later than **February 21, 2013**.

##### **Step 1: Have an approved CITSS account**

All covered and opt-in entities should have previously established a CITSS account. If your entity does not have an approved CITSS account, contact ARB staff immediately at (916) 324-7659.

##### **Step 2: Select the "Auction Participation" box in the CITSS**

In the CITSS, a Primary Account Representative (PAR) or Alternate Account Representative (AAR) for the entity must select the "Auction Participation" box to indicate interest to participate in any upcoming auction or reserve sale. By selecting this box, an entity is agreeing to have the entity name, entity contact information, account numbers, representative names, representative phone numbers, and representative email addresses transferred to the Auction and Reserve Sale Administrator (Auction Administrator) and Financial Services Administrator for the purpose of participating in upcoming auctions or reserve sales. **The "Auction Participation" box must be enabled at least one day prior to the end of the reserve sale application period if the entity wishes to participate in that reserve sale. This box must remain selected prior to every auction or reserve sale an entity wants to participate in.** Once

selected, the box will remain selected until a PAR or an AAR removes the selection.

The “Auction Participation” box must be selected prior to or during the reserve sale application period, must be selected no later than February 20, 2013, and must remain selected through the last day of the application period. ARB recommends the “Auction Participation” box be selected by February 15, 2013, to ensure adequate time to complete the remaining steps.

To select the Auction Participation box, you must:

- Log in to the CITSS (<https://www.wci-citss.org>).
- Select the “View” button for your organization’s General Account.
- Select the “Account Detail” button for your organization.
- Select the “Auction” tab.
- Select the “Auction Participation” box on for your organization.

**Step 3: Complete the reserve sale application or confirm an intent to bid, not later than 11:59 PM PT, February 21, 2013.**

If an entity wishes to participate in the March reserve sale and has not previously been approved to participate in an auction, a PAR or AAR must complete a reserve sale application. If the entity was previously approved to participate in an auction, a PAR or AAR must confirm the entity’s intent to bid in the Auction Platform. To complete the reserve sale application or confirm your organization’s intent to bid, you must:

- Log in to the Auction Platform (<https://www.wci-auction.org>).
- Confirm your organization’s intent to bid.
- Verify your organization’s entity and account representative information transferred from the CITSS. Any necessary changes must be made in the CITSS and, if required, approved by the California Registrar prior to completing the auction application.
- Provide information on the format of the bid guarantee to be submitted.
- Complete the required attestation and submit the auction application or intent to bid.

**B. Eligibility**

California covered entities and opt-in covered entities, are eligible to participate in the March 2013 reserve sale. Voluntary associated entities and individuals are not eligible to participate in reserve sales. Approved offset registries, verification bodies, and offset

verifiers are not eligible to participate in auctions or reserve sales as they are not allowed to hold compliance instruments under the Regulation.

Prior to applying to participate in a reserve sale, an entity must have an approved account in the CITSS and the individuals that will be authorized to submit an application or confirm an intent to bid for the entity, and/or bid on behalf of the entity must be approved as either the PAR or an AAR on that account. To be designated as a PAR or an AAR, an individual must be an approved user in the CITSS.

### **C. Compliance Instrument Tracking System Service (CITSS) Account**

An individual or entity must have an approved CITSS account to participate in the March 2013 reserve sale. All individuals that will be authorized to submit an application or confirm an intent to bid for the entity, and/or bid on behalf of the entity must be designated as the PAR or an AAR on the entity's CITSS account. The PAR and AARs on the CITSS account are the only individuals allowed to submit bids on behalf of an entity during a reserve sale.

Outlined below are requirements that must be met in the CITSS prior to being able to access the Auction Platform to submit an entity's application or confirm an entity's intent to bid in the March 2013 reserve sale. These requirements are specific to the CITSS; the requirements that must be met in the Auction Platform will be discussed later in this Attachment.

- The entity must have an approved account in the CITSS.
- All entity and representative information should be current and accurate prior to submitting an application or intent to bid and **must** be current and accurate prior to the end of the reserve sale application period.
- An entity must select the "Auction Participation" box in the CITSS to indicate an interest to participate in the reserve sale (*see CITSS User Guide Volume 2 if further direction is needed*) no later than one day prior to the end of the reserve sale application period. The box must remain selected until the close of the reserve sale application period.
  - If the box shows a checkmark, it has previously been selected by another account representative. In this case, **do not** make any changes.
- You may disable the "Auction Participation" option if you wish to stop sharing your entity's information with the Reserve Sale Administrator and Financial Services Administrator and wish to no longer participate in future auctions or reserve sales.

Entity and account representatives' information is transferred from the CITSS to the Reserve Sale Administrator to enable participation in a reserve sale. Information will only be sent if the "Auction Participation" box in the CITSS has been selected. During the reserve sale application period, the entity and representatives information is sent on a daily basis and will reflect any **approved** changes or updates made in the CITSS.

If an entity needs to update their CITSS account representatives to add, remove, or change the current PAR or AARs, the changes must be made in the CITSS and approved by the California Registrar. ARB recommends that all changes to entity and account representative information be submitted and approved prior to selecting the "Auction Participation" box in the CITSS.

To update CITSS account information, the following steps must be followed:

- Enter all changes in the CITSS. *If additional assistance is needed, refer to the CITSS User Guide, Volume 2 for directions - available at [www.arb.ca.gov/citss](http://www.arb.ca.gov/citss).*
- Complete and submit the required [Request to Change Account Representatives/Account Viewing Agents Form](#) provided through the CITSS and also available at [www.arb.ca.gov/citss](http://www.arb.ca.gov/citss).
- Approval of changes by the California Registrar should occur within ten (10) business days of receiving all forms and required documentation.
- Following approval of all representatives, verify all information in the CITSS and ensure that the "Auction Participation" box is selected.

Prior to the reserve sale, ARB will verify, through the CITSS, the current PAR and AARs associated with each entity approved to participate in the reserve sale. Only those representatives that were associated with the entity when the reserve sale application period closed, and are still active representatives on the entity's CITSS account will be allowed to submit bids during the reserve sale. Any representatives that have been removed from a CITSS account will not be allowed to submit bids on behalf of the entity they no longer represent.

An entity or person interested in participating in the reserve sale that has not already obtained approval of a CITSS account, may not have sufficient time to complete the CITSS account application process and is strongly advised to initiate the application process immediately.

- To submit a CITSS account application, an entity must designate at least 2 individuals as account representatives, a PAR and at least one AAR.

- All individuals designated as account representatives must be approved CITSS Users.
- Accounts in the CITSS must be approved by the California Registrar and the “Auction Participation” box must be selected in the CITSS at least one day prior to the end of the application period for a reserve. CITSS can be accessed at <https://www.wci-citss.org>.

#### **D. Participation by Entities with Corporate Associations**

The Regulation requires ARB to provide a consolidated set of accounts to entities that have a direct corporate association. There is an option to not be part of a consolidated set of accounts. Entities must formally request this opt-out option. All entities that require consolidation of accounts were required to provide the Executive Officer by October 1, 2012, confirmation of any corporate associations, any intent to have accounts consolidated, and any changes in the PAR or AAR to represent the consolidated accounts. The Regulation also requires information about corporate associations and structure to be updated as any changes occur.

ARB staff is working with entities to ensure account consolidation is completed in time to allow participation in the March 2013 reserve sale. Any entity that has a direct corporate association with one or more other entity participating in the Cap-and-Trade Program that has not completed the consolidated entity account form should contact ARB staff immediately at (916) 324-7659.

The nature of associated entities' registration in the CITSS determines their ability to participate in a reserve sale. For entities that are registered in the CITSS under a single Consolidated Entity Account (CEA), the CEA is the only entity that can participate in the reserve sale. If an entity has opted-out of a CEA, both the CEA and the covered entity(ies) that opted-out of consolidation can participate in a reserve sale. Holding limits will be assessed separately for each entity participating in the reserve sale for any entities with a direct corporate association, including entities that opted out of a CEA, based on the information provided in the consolidated account forms submitted to ARB. Any changes to corporate associations must be reported to ARB within 30 days of a change to the information. If a change to the corporate association affects reserve sale participation, that change and any additional actions required by that change, must be approved no less than one day prior to the end of the application period for a reserve sale or the entity(ies) involved may not be able to participate in the reserve sale.



More information on consolidated accounts can be found on ARB's Cap-and-Trade Program website at:

[http://www.arb.ca.gov/cc/capandtrade/markettrackingsystem/consol\\_accounts.pdf](http://www.arb.ca.gov/cc/capandtrade/markettrackingsystem/consol_accounts.pdf).

### **III. Participating in the Reserve Sale**

To participate in the March 2013 reserve sale, entities must take the steps listed below. Earlier in this Attachment, we discussed requirements specific to the CITSS. In this section we discuss the process to participate in a reserve sale as well as requirements that must be met in the Auction Platform.

For each reserve sale, there is a reserve sale application period starting at least 28 days prior to the reserve sale with the release of the reserve sale notice, and ending approximately 14 days prior to the reserve sale. The last date that the application period is open is the due date for submitting a reserve sale application or confirming an entity's intent to bid in the Auction Platform.

The process for reserve sale participation begins with the representatives of each entity establishing an Auction Platform account in the CITSS. Outlined below is the process to access or establish an Auction Platform account.

- During the open reserve sale application period, account information including entity and representatives details is sent on a daily basis from the CITSS to the Reserve Sale Administrator to provide current entity and account representative information.
- Individuals that previously activated an account in the Auction Platform during a prior auction application period will be able to access the Auction Platform using their previously established credentials. All entities for which the individual is an approved PAR or AAR and that have selected to have account information sent to the Reserve Sale Administrator will be reflected in the Auction Platform.
- Individuals that have not previously activated an account in the Auction Platform and are designated as a PAR or AAR will receive an Auction Platform account activation email from the Auction Platform. The email provides an activation link to activate an account and establish an Auction Platform password. This email is received after the CITSS account application information is transferred to the Reserve Sale Administrator.
  - The email address submitted for each account representative in the CITSS user registration process will be used as the account representative's user name in the Auction Platform.



- The Activation Link will expire 24 hours after receipt of the Auction Platform account activation email.

If an individual previously had activated an account in the Auction Platform but has changed their email in the CITSS, they will need to activate a new account through the Auction Platform, and will receive an account activation email after the Auction Platform has received the updated information. The prior Auction Platform access and username will be disabled.

All account representatives that are authorized by the entity to act on behalf of the entity in a reserve sale should activate accounts and establish passwords. The PAR and AARs that activate their Auction Platform accounts will be able to submit bids on the behalf of an entity in the Auction Platform.

Outlined below are the steps in the Auction Platform to participate in a reserve sale once an Auction Platform account is established.

***The following steps cannot occur until after the reserve sale application period opens:***

Step 1: One entity representative accesses the Auction Platform and completes the entity's application to participate in the March 2013 reserve sale (first time participant) or confirms the entity's intent to bid in the reserve sale (previous auction participant)

Step 1a: Confirm intent to bid

Step 1b: Verify entity and account representative information

Step 1c: Provide information on format of bid guarantee to be submitted

Step 1d: Complete attestation and submit reserve sale application

***Step 1 must be completed by February 21, 2013, in the Auction Platform.***

Step 2: Participate in pre-reserve sale activities (optional, but highly recommended)

Step 3: Submit physical bid guarantee (***no later than February 27, 2013; 2:00 PM PT***)

Step 4: Receive notice of entity's approval to participate

Step 5: Participate in the reserve sale

Step 6: Access reserve sale results

Step 7: Financial settlement

### **Step 1: Apply to Participate in the Reserve Sale**

The first time an entity wishes to bid in an auction or reserve sale, one representative of that entity must complete an application within the Auction Platform. Once an entity is

approved to bid in an auction or reserve sale, a representative must confirm the entity's intent to bid in the Auction Platform if they wish to bid in future auction or reserve sales. For the March 2013 reserve sale, the reserve sale application or confirmation of the entity's intent to bid must be submitted in the Auction Platform by the PAR or an AAR by no later than 11:59 PM PT on Thursday, February 21, 2013.

#### **First Time Auction or Reserve Sale Participant**

For the March 2013 reserve sale, entities that have not previously been approved to participate in an auction must submit an application through the Auction Platform. The application process includes confirming an intent to bid, verifying the entity and account representative information provided through the CITSS, providing the form of the bid guarantee that will be submitted, and completing an attestation. Once a reserve sale application is submitted, an account will be established by the Financial Services Administrator and then ARB will approve or disapprove the reserve sale application.

#### **Previous Auction Participant**

Once an auction or a reserve sale application has been approved for an entity that entity does not need to submit another application for subsequent auction or reserve sales unless there is a material change to the application information. If an entity that wishes to participate in the March 2013 reserve sale has previously been approved to participate in an auction, the entity must submit an intent to bid through the Auction Platform that includes verifying the entity and account representative information provided through the CITSS, providing the form of the bid guarantee that will be submitted, and completing an attestation. To allow ARB adequate time to review and approve reserve sale participation and the Financial Services Administrator reconciliation of bid guarantee information submitted, each entity must complete the confirmation of an intent to bid no later than the end of the reserve sale application period.

If the entity is participating in the February 2013 auction and the March 2013 reserve sale, a separate application or intent to bid must be submitted for each event and a separate bid guarantee must be submitted specific to each event.

The process of submitting an application or confirming the entity's intent to bid in the Auction Platform follow similar steps in progression through the Auction Platform, as outlined below.

### **Step 1a: Confirm Intent to Bid**

Either the PAR or an AAR must access the Auction Platform and identify the reserve sale that the entity intends to bid in, the March 2013 reserve sale.

### **Step 1b: Verify Entity and Account Representative Information Transferred from the CITSS**

The representative must then review and confirm the entity account information in the Auction Platform including the account representative details. Entity account and representatives information are transferred to the Auction Platform from the CITSS. Therefore, all changes to reserve sale application information must be made through the CITSS. Material changes such as a change in account representatives will require review and approval by the California Registrar. It may take up to ten (10) business days before entity detail changes made in the CITSS are approved and reflected in the Auction Platform. Updates in the CITSS should be made as early as possible and a minimum of ten (10) business days before the close of the reserve sale application period to allow time for approval and subsequent confirmation of the information in the Auction Platform.

### **Step 1c: Provide Bid Guarantee Information**

The entity representative must then select the form of bid guarantee that will be submitted. Reserve sale participants can identify one or a combination of the forms of bid guarantee in the Auction Platform on the Bid Guarantee page. All physical forms of bid guarantee (LOCs or bonds) will be sent directly to the Financial Services Administrator, as described in Step 3, the "Submit Physical Bid Guarantee" section of this Attachment.

### **Step 1d: Complete the Attestation and Submit Reserve Sale Application**

If all information is complete and accurate, the entity representative will complete the attestation in the Auction Platform and submit the entity's application or confirmation of an intent to bid for the reserve sale. After the application or confirmation of an intent to bid is completed, ARB, the Reserve Sale Administrator, and the Financial Services Administrator will perform a number of tasks.

1. The Reserve Sale Administrator will confirm receipt of each reserve sale application or confirmation of intent to bid via email on the day it is received.

2. ARB will review each applicant's application information and intent to bid and make a determination to approve or deny.
3. Each applicant will be notified via email within two (2) days of the reserve sale date, as to whether their reserve sale participation has been approved or denied.
4. ARB will verify that representatives are still current and active in the CITSS prior to the reserve sale. Any representatives that have been removed from a CITSS account will not be allowed to submit bids on behalf of an entity they no longer represent.

**A. Potential Bidder**

Each entity that has completed a reserve sale application or confirmed an intent to bid and been approved is referred to as a "Potential Bidder."

**B. Reserve Sale Participant Notification**

Each potential bidder that has successfully met the financial guarantee requirements and established an account with the Financial Services Administrator, as described below, may bid in the March 2013 reserve sale. Each potential bidder will be notified of their reserve sale participation status prior to the reserve sale.

**C. Establishing an Account with the Financial Services Administrator**

Information that is provided to the Reserve Sale Administrator will be supplied electronically to the Financial Services Administrator so that a Know-Your-Customer review can be performed and an account established with the Financial Services Administrator for the submission of the entity's bid guarantee.

**Step 2: Participate in Pre-Reserve Sale Activities (optional, but highly recommended)**

**A. Bidders' Conference and Reserve Sale Participant Training Webinar**

ARB and the Reserve Sale Administrator will hold a bidders' conference and reserve sale participant training webinar for the March 2013 reserve sale from 10:00 AM to 12:00 PM PT (Noon) on Thursday, February 14, 2013. The bidders' conference and reserve sale training will be open via teleconference to anyone interested in participating in the March 2013 reserve sale. The bidders' conference will include discussion of the reserve sale format, application process, procedures, and requirements. The bidders' conference webinar will be followed by reserve sale participant training, which will describe how to apply for a reserve sale and submit bids

in the Auction Platform, as well as how to submit a bid guarantee. The details for the bidders' conference and reserve sale participant training webinar are provided below.

### **March 2013 Reserve Sale Bidders' Conference and Reserve Sale Participant Training Webinar**

Date: Thursday, February 14, 2013

Time: 10:00 AM to 12:00 PM PT (Noon)

The webinar will continue through the scheduled time period or until all questions are answered. The webinar may end prior to the scheduled end time if all participant questions have been answered.

Click here to join the Webinar: <http://markit.adobeconnect.com/r2dtk8k9gl/> and sign in as a guest.

To dial-in, please use the Participant Phone numbers and Webinar Passcode listed below:

Participants U.S. and Canada Toll free: 877-723-9518

Passcode: 8234707

### **Auction Platform Training Materials**

Training materials will be available on the Resources tab of the Auction Platform. Training materials available in the publicly accessible home page of the Auction Platform include an Auction and Reserve Sale Guide, which provides a high-level overview of the Auction Platform and the process for participating in an auction or reserve sale, Frequently Asked Questions (FAQs), a training webinar video (following completion of the Participant Training), and calendar of upcoming activities. Additional materials will be available to auction and reserve sale participants once they have received an account in the Auction Platform. This material will include an Auction and Reserve Sale Platform User Guide with a step-by-step explanation of what to expect during an auction or reserve sale.

### **Electronic Question Submittal**

The Auction Platform includes a link to submit questions and comments to the Reserve Sale Administrator regarding the reserve sale process. Questions regarding the Auction Platform and bidding process can also be sent directly to the Reserve Sale Administrator Support Team at [auctionsupport@markit.com](mailto:auctionsupport@markit.com). For all other questions regarding the California GHG Cap-and-Trade Program, please contact the California Air Resources Board at (916) 322-2037.

### **Step 3: Submit Physical Bid Guarantee**

Bid guarantees must be received by the Financial Services Administrator in United States Dollars ("USD") by no later than 2:00 PM PT on Wednesday, February 27, 2013. The amount of the bid guarantee provided to the Financial Services Administrator will be used to set bidding limitations in the reserve sale. A separate bid guarantee must be provided to the Financial Services Administrator for the March 2013 reserve sale regardless of any bid guarantee on account for the February 2013 auction. To determine the bid guarantee amount to provide for the March 2013 reserve sale, please see Attachment B.

Financial guarantee instruments for the March 2013 reserve sale must be in one or a combination of the following forms:

- Cash in the form of wire transfer or certified funds such as a bank check or cashier's check.
- An irrevocable letter of credit (LOC) from a financial institution with a U.S. banking license.
- A bond issued by a financial institution with a U.S. banking license.

Reserve sale participants can select one or a combination of the forms during the reserve sale application process in the Auction Platform on the Bid Guarantee page. All physical forms of bid guarantee (LOCs or bonds) will be sent directly to the Financial Services Administrator.

Details of the three forms of bid guarantee are described below. The Financial Services Administrator acts as agent for ARB for the purpose of financial settlement for California GHG allowance reserve sales. Each potential bidder should be sure to allow sufficient time for the delivery of the bid guarantee to the Financial Services Administrator by consulting with its banker well before the bid guarantee submission deadline of 2:00 PM PT Wednesday, February 27, 2013. Potential bidders will receive an email confirmation that their bid guarantee has been received by Deutsche Bank, the Financial Services Administrator.

All cash bid guarantees submitted will be held in a non-interest bearing trust account with the Financial Services Administrator. On the behalf of ARB, the Financial Services Administrator receives and maintains any LOCs and bonds that are submitted as financial security. As part of the financial settlement of each reserve sale, irrevocable LOCs and bonds will be returned according to the return instructions provided by the bidders in the Auction Platform, or are drawn down in the case of a failure to settle.

### **A. Submitting a Cash Bid Guarantee**

Cash wire transfers or certified funds must be received by the Financial Services Administrator, Deutsche Bank National Trust Company (Deutsche Bank), by no later than 2:00 PM PT on Wednesday, February 27, 2013, at the address provided below.

ARB Auction & Reserve Sale Financial Services Administrator  
c/o Deutsche Bank National Trust Company  
60 Wall Street, 27th Floor  
Mailstop: NYC60-2715  
New York, NY 10005-2836 USA

### **A1. Submitting a Wire Transfer Bid Guarantee**

The representatives of potential bidders will be emailed information for submitting cash by wire transfer after the entity has completed the reserve sale application or intent to bid confirmation process in the Auction Platform. Additional details will be available through download from the Auction Platform.

The cash wire details will include the following information:

- Originating Bank Information ("OBI Field")
- Beneficiary name
- Account number
- ABA routing number
- Payment Details<sup>2</sup>

Unused wire transfer balances will be returned by Deutsche Bank via Fed Wire per the instructions given during the application process no later than twelve (12) days after the certification of the reserve sale or after results and invoices are sent to successful reserve sale participants by the Reserve Sale Administrator.

### **A2. Submitting a Certified Bank Check or Cashier's Check Bid Guarantee**

Certified funds in the form of a certified bank check or cashier's check must be received by Deutsche Bank no later than 2:00 PM PT on Wednesday, February 27, 2013, in order to be deposited in a timely manner.

---

<sup>2</sup> The Payment Details include a Portfolio number that you will receive in the wiring instructions for submitting cash. It is important that the wire details are set up exactly as provided in your delivery instructions in order to deposit the funds in a timely manner.



Potential bidders will be emailed the details for submitting cash by a certified bank check or cashier's check after the application process has been completed. All checks must be made out to "Deutsche Bank National Trust Company" and will be deposited into a trust account established on your behalf during the application process. The financial security will be credited at the time the check clears.

Unused cash balances will be returned by Deutsche Bank via Fed Wire per the bid guarantee return instructions given during the application process, not later than twelve (12) days after the certification of the reserve sale.

**B. Submitting a Letter of Credit Bid Guarantee**

A LOC issued by a United States financial institution must be received by the Financial Services Administrator no later than 2:00 PM PT on Wednesday, February 27, 2013.

All bid guarantees in the form of a LOC require the following non-negotiable terms:

- The party named as "Applicant" on the LOC must be identical to that named in the participant's reserve sale application.
- Deutsche Bank National Trust Company must be listed as the beneficiary.
- The LOC must be irrevocable.
- The amount of the LOC must be included.
- The expiration or maturity date must be at least 21 days after the scheduled reserve sale.
- There must be instructions included indicating where to submit the LOC for payment.
- There must be a payment certificate/form of draw included as an exhibit or annex to the LOC.
- The LOC must be payable within 1 business day.

The mailing/Federal Express instructions for LOC forms are as follows:

Payable to Deutsche Bank National Trust Company

Mailing Address:

ARB Auction and Reserve Sale Financial Services Administrator

c/o Deutsche Bank National Trust Company

60 Wall Street, 27th Floor

Mailstop: NYC60-2715

New York, NY 10005-2836

Phone: (212) 250-6645

Email: [CAARB.inbox@db.com](mailto:CAARB.inbox@db.com)

Please note if any of these terms are not met, the submitted LOC may be rejected.

**C. Submitting a Bank Bond Bid Guarantee**

A bank bond, issued by a United States financial institution, must be received by the Financial Services Administrator no later than 2:00 PM PT on Wednesday, February 27, 2013.

All bid guarantees in the form of a bank bond require the following non-negotiable terms:

- The party named as “Principal” in the bank bond must be identical to that named in the participant’s reserve sale application.
- Deutsche Bank National Trust Company must be listed as the obligee.
- The bank bond must be irrevocable.
- The expiration date must be at least 21 days after the scheduled reserve sale.
- The amount of the bank bond must be included.
- There must be instructions included indicating where to submit the bank bond for payment.
- There must be a payment certificate/form of draw included as an exhibit or annex to the bank bond.
- The bank bond must be payable within 1 business day.

The mailing/Federal Express instructions for bond forms are as follows:

Payable to Deutsche Bank National Trust Company

Mailing Address:

ARB Auction and Reserve Sale Financial Services Administrator

c/o Deutsche Bank National Trust Company

60 Wall Street, 27th Floor

Mailstop: NYC60-2715

New York, NY 10005-2836

Phone: (212) 250-6645

Please note if any of these terms are not met, the submitted bond may be rejected.

### **Bid Guarantee Revision Process**

If a bid guarantee in the form of bond provided to the Financial Services Administrator needs to be revised:

- Reserve sale participants would be notified by the Financial Services Administrator.
- Reserve sale participants would contact their financial institution in advance of the bid guarantee submittal deadline of Wednesday, February 27, 2013, and request an amendment to their bid guarantee.

### **Step 4: Receive Notice of Entity's Approval to Participate**

Once ARB approves an entity for reserve sale participation, the PAR and all AARs for the entity that have active Auction Platform accounts will receive an email confirming approval or denial to participate in the reserve sale.

Reasons for possible denial of an entity's participation in a reserve sale include:

- The entity does not have an active CITSS account.
- An entity's holding account has been revoked or is currently suspended.

### **Step 5: Participate in the Reserve Sale**

The March 2013 reserve sale will be conducted using an electronic, internet-based Auction Platform that bidders will use to submit their bids. Bid quantities must be submitted in multiples of 1,000 California GHG allowances.

Pursuant to the Regulation, ARB's Executive Officer shall divide allowances into three equal-sized tiers to be offered for sale by the Reserve Sale Administrator at each reserve sale.

Sales of APCR allowances in calendar year 2013 shall be conducted at the following prices:

- (A) Allowances from the first tier shall be offered for \$40 per allowance;
- (B) Allowances from the second tier shall be offered for \$45 per allowance; and
- (C) Allowances from the third tier shall be offered for \$50 per allowance.

The Reserve Sale Administrator will conduct sales from each tier in succession, beginning with the lowest priced tier and proceeding to the highest priced tier, until either all allowances are sold from the reserve or all the accepted bids are filled. Examples of how reserve sales are settled are provided in Attachment B of this Notice.

### **A. Bidding in the Reserve Sale**

The March 2013 reserve sale includes the opening of the 3-hour bidding window in the Auction Platform at 10:00 AM PT and the closing of the window at 1:00 PM PT. A countdown clock in the Auction Platform will indicate the amount of time until the start of the bidding window and once the reserve sale begins, the amount of time left in the bidding window. Participants will be able to submit bids manually and upload bid schedules in a pre-defined Excel template in the Auction Platform during the 3-hour bidding window.

Other features of the March 2013 reserve sale are as follows:

- Reserve sale participants will select their desired number of allowances (1 lot = 1,000 allowances) and the tier at which they bid to purchase the allowances.
- Reserve sale participants are allowed to submit as many bids as they wish during the 3-hour window.
- Participants will be able to edit or withdraw their confirmed bids during the 3-hour reserve sale bidding window.
- Once the reserve sale bidding window has been closed no further changes to bids can be made.

### **B. Bidding Limitations**

The Regulation includes bidding limitations related to the bid guarantee submitted and the holding limit. These bidding limits are described below. Examples of how to review a bid schedule in respect to these bidding limits including how to determine your bid guarantee and how a reserve sale would be settled are included in Attachment B.

#### **Bid Guarantee Bid Limitation**

The bid guarantee for the March 2013 reserve sale must be greater than or equal to the maximum value of the bids submitted. The Auction Platform will reject a bid that would cause the maximum bid value of the bidder's bids to exceed the amount of a bidder's bid guarantee. See Attachment B of this Notice for an example of how to calculate your bid guarantee.

#### **Holding Limit Bid Limitation**

The holding limit is the maximum number of California GHG allowances that may be held by an entity or jointly held by a group of entities with a direct corporate association. Further detail on how the holding limit applies to the March 2013 reserve sale is provided in Attachment B of this Notice.

Entities that are part of a direct corporate association that choose to opt out of account consolidation pursuant to section 95833(f)(3) of the Regulation must allocate shares of the holding limit among themselves. This holding limit allocation results in each entity having a specified percentage share of the group's holding limit. The sum of the percentages allocated among the entities must sum to one.

ARB will transmit a file to the Reserve Sale Administrator prior to the reserve sale that contains the holding limit cap for each reserve sale participant. These caps will indicate how many allowances a reserve sale participant may acquire before exceeding their holding limit. The holding limit cap will be based on the account balances and limited exemption data available in the CITSS at approximately 12:00 (Noon) PT the day prior to the reserve sale.

#### **Purchase Limit Bid Limitation**

There is no purchase limit applied to the purchase of APCR GHG allowances offered at reserve sales.

#### **C. Market Monitoring**

ARB has contracted with an independent market monitor, Monitoring Analytics, LLC. for the California Cap-and-Trade Program. The purpose of the Market Monitor is to assist ARB in monitoring, detecting, and reporting on issues relating to the operation of the GHG allowance auctions, reserve sales, and secondary markets.

The Market Monitor will monitor the GHG allowance auction and reserve sales, and provide ongoing monitoring of GHG allowance holdings and market activity. The Market Monitor will monitor the secondary market to identify any indications of anti-competitive behavior, as well as to understand market activity and trades. The Market Monitor's findings will be provided to ARB staff to review and take action, as needed. ARB staff will also be monitoring the reserve sale during the bidding window and reviewing submitted bids to determine if there are any indications of anti-competitive behavior.

Any fraudulent, manipulative, collusive, or noncompetitive behavior in a GHG allowance auction or reserve sale may be investigated and prosecuted in accordance with all applicable laws and regulations.

#### **Step 6: Access Reserve Sale Results**

Following the reserve sale, the Reserve Sale Administrator will notify ARB of the reserve sale results and ARB and the Market Monitor will review the reserve sale results. ARB's Executive Officer will review the conduct of the reserve sale and certify

whether the reserve sale met the requirements of the Regulation. Upon certification, reserve sale results will be accessible.

#### **A. Public Notification of Reserve Sale Results**

The public results from the March 2013 reserve sale including the total purchases by tier will be posted on the ARB website at [http://www.arb.ca.gov/cc/capandtrade/reserve\\_sale/reserve\\_sale.htm](http://www.arb.ca.gov/cc/capandtrade/reserve_sale/reserve_sale.htm) and the WCI, Inc. website at <http://www.wci-inc.org> when the reserve sale is certified. This posting is anticipated to occur at approximately 12:00 (Noon) PT on Wednesday, March 13, 2013.

The reserve sale results will include the following:

- The names of the qualified bidders.
- The reserve sale prices per tier and allowances available in each tier.
- The total number of allowances sold from each tier.<sup>3</sup>

In the event of a delay, a message will be posted on the ARB website and WCI, Inc. website providing the new time for the release of the settlement price. Immediately following the posting of the settlement price, bidders will receive an email notification that they can log in to the Auction Platform to view their reserve sale results. Each bidder will see the number of GHG allowances they have been awarded, if any.

#### **B. Notification of Entity Reserve Sale Results**

Immediately following the posting of the public reserve sale results, bidders will receive an email notification that they can log in to the Auction Platform to view their reserve sale results.

If the reserve sale results are not certified by the Executive Officer, a re-run of the reserve sale may be scheduled and reserve sale participants will be notified by the Reserve Sale Administrator and through an email notification.

#### **Step 7: Financial Settlement**

Financial settlement will begin once the ARB's Executive Officer has certified the reserve sale results. The Financial Services Administrator will settle for all allowances won in the reserve sale. The financial settlement process will take place outside of the Auction Platform. The Auction Platform will send an email notification to the representatives of each entity of the availability of the entity's settlement invoice with the

---

<sup>3</sup> The total number of allowances will be provided only if the total represents purchases from a minimum of three qualified bidders.

total cost of the allowances awarded, if any. This notification represents receipt of the settlement invoice and is the beginning of the seven (7) day period in which a reserve sale participant is required to pay the amount due for allowances won in cash to the Financial Services Administrator.

As part of the financial settlement process, the Financial Services Administrator will:

- Notify each winning bidder of the number of allowances purchased by tier, total allowances purchased, total purchase cost, and the deadline and method for submitting payment.
- Collect cash payment from winning bidders within seven (7) days of notification of the reserve sale results.
- Use the bid guarantee to cover payment for allowance purchases by any entity that fails to make cash payment within seven (7) days.
- Deposit reserve sale proceeds from the sale of ARB allowances to the Greenhouse Gas Reduction Fund.

Once financial settlement is complete, ARB will transfer the number of allowances purchased into each winning bidder's CITSS Compliance Account.

#### **A. Cash Settlement**

All final financial settlements must be made in cash by reserve sale participants within seven (7) days of receipt of a settlement invoice in the Auction Platform. Bid guarantees held on account by the Financial Services Administrator will be used to cover payment for allowances purchased by an entity or individual reserve sale participant that fails to make cash payment within seven (7) days after receiving notification of reserve sale results.

The wiring instructions for cash settlement will be included on your settlement invoice in the Auction Platform. Cash settlement must be completed through the wiring instructions provided. Settlement by submittal of a certified bank check or cashier's check to the Financial Services Administrator is not acceptable. If a certified bank check was submitted for the bid guarantee, the bid guarantee will be applied against the final bid or settlement amount. If bid guarantee instruments in the form of letters of credit or bonds are submitted and a check is received for cash settlement, the check will be returned and the bid guarantee will be used to cover payment for allowances purchased at reserve sale.



## **B. Return of Bid Guarantee**

At the end of the reserve sale, for winning bidders, all bid guarantee instruments in the form of letters of credit or bonds will be sent directly to the reserve sale participants by the Financial Services Administrator, based on the delivery instructions specified during the reserve sale application process in the Auction Platform. The Financial Services Administrator will send an email to the reserve sale participants in advance of sending back the bid guarantee so they can prepare for receipt of funds.

All cash bid guarantees will be applied against the final bid or settlement amount. If there is cash remaining on account with the Financial Services Administrator after the awarded allowances are settled, it will be returned to the reserve sale participant based on the wire instructions specified during the reserve sale application process in the Auction Platform.

For all other participants, bid guarantees in the form of letter of credit and bonds will be sent directly to the participants by the Financial Services Administrator, based on the delivery instructions specified during the reserve sale application process in the Auction Platform by no later than Friday, March 22, 2013. All cash guarantees will be returned via a wire transfer, based on the delivery instructions specified during the reserve sale application process in the Auction Platform.

In the event that ARB determines that the reserve sale is not certified and will not be re-run, then all bid guarantee instruments will be returned to the bidders.

GHG allowances will be transferred to each winning bidder's Compliance Account in the CITSS at the close of the reserve sale. All winning bidders will be notified when this transfer is complete.